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How to implement affordable rental housing schemes

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Affordable rental housing an innovative new business model

- “Public Purpose Housing Associations” as private sector companies
- Comprehensive regulations
- Limited scope of activities, cost coverage, limitation of profits, tie-up of assets, obligation to build
- State subsidies in return for Services of General Economic Interest
- Comprehensive audit and control

Steps of implementation (1)

- a) Establishment of a pilot Housing Association
- b) Set-up of the regulatory framework on a contractual basis (statutes)
- c) Development of a pilot housing project (50-100 units) to assess the regulatory framework in the country, the business environment, the business case including construction and housing management, reliability of management and partners etc.
- d) Evaluation of the initial phase

Steps of implementation (2)

- e) Transformation of the regulatory framework into “Public Purpose Housing”-legislation
- f) Set-up of a scheme of audit and control
- g) Promotion of a competitive environment of several stakeholders to start other PPH operations
- h) Establishment of a housing programme with IFI financing and State guarantee for e.g. 2,000 units
- i) Evaluation of this 2nd phase
- j) Successive housing programmes and scale-up of the sector

Target to build-up a sector of ca. 10,000 units within 10-12 years!

Regulatory Framework

1. General provisions / subject of regulation
2. Prerequisites for approval as P3HA
3. Procedure
4. Security of assets, reinvestment of profits, distribution of profits
5. Business conduct
6. Housing management and maintenance
7. Audit and control
8. Legal succession, sale of apartments, buildings, land and shares
9. Rent regulations in the P3HA-sector
10. Regulations on public subsidies targeting at P3HA
11. Fiscal regulations
12. Obligations of municipalities
13. Transitional provisions

Financing

- Funding of equity of a pilot Housing Association: in-kind contribution of building land, grants, contributions of owners
- Financing pilot project: € 4-6 mill.
- Financing 1st scale-up phase with a housing programme for e.g. 1,000 units, investment volume ca. € 40-60 mill.
- Financing of follow-up housing programmes with ca. € 100-200 mill.
- Technical Assistance for Feasibility Studies, setup of a pilot Housing Association, assessments after each phase of implementation etc.

Affordable housing schemes sometimes go wrong

- Change of political philosophy / loss of political backing
- Loss of political usefulness
- Excessive public costs
- Unsustainable business case
- Insufficient financial endurance
- Wrong allocation policy
- Compliance issues
- Lack of competition
- Insufficient learning curve

Change of political philosophy / loss of political backing

- Mid 1980s, time of Thatcherism / Reaganomics
- Germany insolvency of biggest housing association „Neue Heimat“
- Distrust in sustainability and efficiency of the system of Limited Profing Housing Associations (LPHA)
- Destruction of the system and replacement with market driven mechanisms

→ Bolt political backing over the political spectrum is key

Loss of political usefulness

- Dutch Woningcorporaties with a housing stock of 2.4 mill. (32%)
 - 1990s “Brutering” or “balancing-out” = independence from state housing policy
 - No more State subsidies -> hardly any more State influence
 - „Dutch Case“ with re-dimensioning of the sector can be interpreted as regaining of authority on housing policy of the State
 - Wocos again taken at hard line of the State
- Policy lead is key and should be maintained

Excessive public costs

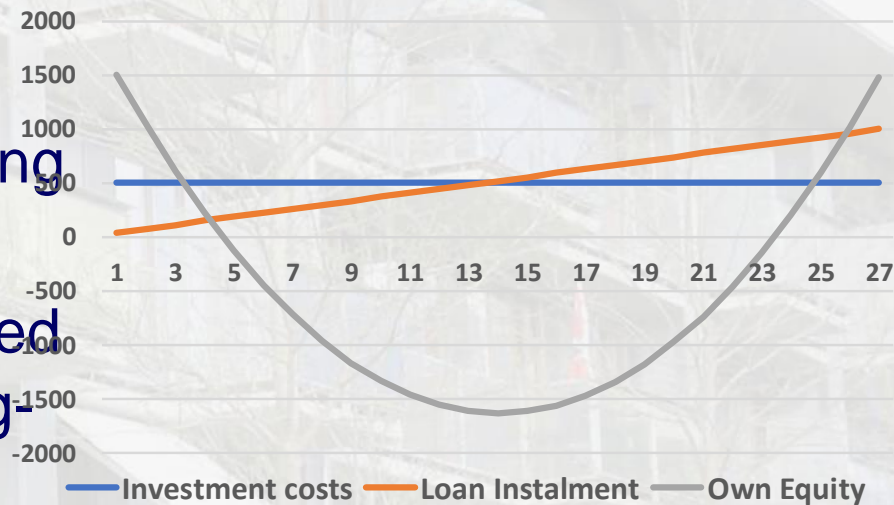
- German „Bauspar“ (contract saving) scheme after transition introduced i.a. in Slovak Republic, Czech Republic, Hungary, Croatia, Romania, Kazakhstan, China
- Full effectiveness only with high market penetration (e.g. CZ 5.6 mill. contracts within a population of 10.3 mill. = 54%)
- This can be achieved only with high subsidies on savings
- In some countries this dried out available State funds, which made them decide to bail out

Unsustainable business case

- Widespread example donor funds are acquired to solve the housing situation of most vulnerable households
 - Even though in rent, tenants will hardly be able to contribute to refinancing of the investment
 - Due to often unlimited rents, the newly built stock is locked-in
 - Substantial donor investment in new housing construction serves only a very small number of households
- It is counterproductive to serve the poorest with the most expensive way of housing. To scale-up affordable housing it is essential that tenants contribute substantially to refinancing.

Insufficient financial endurance

- Rental housing is characterized by very long investment cycles
- During full credit period affordable rents will cover hardly more than loan instalments
- Challenge of low or negative own equity of newly established housing associations („bathtub curve“)
- Financial maturity may be achieved only long-term, and only with long-term compliant business conduct



→ Long term orientation of business conduct is culturally informed

Wrong allocation policy

- Concrete example Foreign Social Landlord has erected and financed a model project with 160 units
- General rent contract with local authority
- Local authority has allocated with mostly vulnerable households
- Growing rent payment default
- For social policy reasons eviction was not possible
- Payment obligation to foreign landlord still have to be fulfilled, which exhausts social budgets, and impedes other social action
- Originally good will from all sides, finally lose-lose-situation

→ Only financially solid social landlords can act with social responsibility

Compliance issues

- Concrete example Very promising institutional setting of a new social landlord (social partnership shareholders)
- Focus on affordable owner-occupied apartments for key workers
- But over-average salaries, favouritism in employment
- But personal enrichment in tendering, brokerage of market apartments, land acquisition
- Payment delays to service providers caused delayed completion, hand-over of apartments and cash flow

→ Real estate is prone for mismanagement and corruption.
This can be countered with strict audit and control.

Lack of competition

- Public housing sectors all over the world have degraded because of their monopole in their sector
- This was a main reason for their deteriorating reputation and in many cases liquidation

→ There is no better driver of innovation than competition

Insufficient learning curve

- Affordable rental housing is a challenging business case in many respect socially, financially, managerially, politically
- Without quick adaptation, a social housing sector may lose legitimacy and hence political backing quickly

→ The management, the sector interest group and legislation have to adapt quickly to an ever faster changing environment



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